



**OKLAHOMA**  
Tax Commission

AUDIT SERVICES

# FIELD AUDIT GUIDE FOR TAXPAYERS



# TABLE OF CONTENTS

Introduction.....	2
What is a field audit? .....	2
Why was I selected for a field audit?.....	2
Navigating the Audit .....	3
Can someone else represent me? .....	3
How far back can a field audit go? .....	3
How long does an audit take? .....	3
What happens if I do not provide records? .....	4
I just received my inquiry letter. What happens next? .....	4
Paper or Electronic Record .....	4
What records will I need to provide?.....	4
Full record audit vs. sample audit. ....	5
Other forms you may be asked to complete.....	5
Navigating the Liability.....	6
What happens after the audit?.....	6
Your rights after audit completion. ....	6
If I owe tax, how do I pay?.....	7
Oklahoma State Rules & Statutes.....	8
References .....	8

# INTRODUCTION

## **What is a field audit?**

A field audit is a comparison of data to determine if the correct amount of tax has been reported on your tax return(s). The goals of a field audit are to promote voluntary compliance, identify errors and assist you in understanding your rights and responsibilities under Oklahoma tax laws. An audit can identify problem areas early and prevent them from causing additional tax liabilities. The auditor may find that no changes are needed because the statutes and rules applicable to the issue under review were followed. We will attempt to complete the audit with minimal disruption to your daily business activities. You can assist in this by providing well-organized records to the auditor. Being prepared can save you time and money, and will help speed the completion of the audit. Your prompt response to the auditor, along with provision of records in the requested format, will ensure the process is conducted as smoothly as possible.

## **Why was I selected for a field audit?**

Being selected for a review of your return(s) is not an indication that we believe you have done anything wrong. We select returns for review using a variety of methods and information, such as:

- Computer-based random selection;
- Analysis of Oklahoma tax return information, such as exemptions;
- Internal Revenue Service records;
- Information sharing programs with other states and agencies; and
- Other sources.

# NAVIGATING THE AUDIT

## Can someone else represent me?

You may have someone else represent you, such as assigning an employee(s) to help the auditor during the field review. If you would like the auditor to discuss the audit with someone within your business, you should provide the representative's contact information, their position in the company and any restrictions as to the information they may be provided. You may also have someone outside of your business act as your representative during the review. Examples of a personal representative are your accountant, CPA, attorney or a relative. You will need to provide a completed [Power of Attorney](#) (POA) form to the Oklahoma Tax Commission (OTC) before having them contact us. Upon completing the form, you may print a hard copy for mailing or 'print to PDF,' and email it to your auditor via encrypted email, or upload the document through [OkTAP](#).

## How far back can a field audit go?

Any return filed timely within the last **three years** may be selected for a review. If the return is a monthly, quarterly or semi-monthly tax return, the period selected for review can be no older than 36 months from the filing date of the return, if filed timely. If the return is an annually-filed return, we can review three years of returns prior to the date filed, or the return due date, whichever is later. In some cases, the OTC may go back further than three years. If you have agreed to an [Assessment and Refund Statute of Limitation Waiver Agreement \(SOL\)](#), the agreed upon periods will be the audit period(s). If you did not file a return, or filed a substantially incorrect return, the OTC may audit for periods longer than three years.

## How long does an audit take?

The OTC will complete the audit in the shortest time possible while still reaching sound conclusions. The length of an audit depends on the size and type of business, type and completeness of accounting records, type, quality and timeliness of records provided. The auditor may recommend a sample audit of the records, depending on the type and quantity of records needing to be reviewed.

You may be asked to sign an SOL in order to allow time to provide and review the records in order to accurately determine if taxes have been correctly reported. You will not be penalized for not signing an SOL. However, not agreeing to sign an SOL may cause the auditor to:

1. Assess based on what information is available so the older periods of the audit are not lost; or

2. Change the audit periods by adding current periods to the audit while dropping off the older, out-of-statute periods, which may cause more work for you.

### **What happens if I do not provide the requested records?**

If you fail to provide the information or documents as requested, your tax liability will be estimated based on available information. Missing records or unexplained differences may result in the use of information readily-available to the OTC or area or industry averages to determine if taxes are due.

### **I just received my inquiry letter. What happens next?**

We will send an inquiry letter notifying you of your selection for an audit and request that you complete a questionnaire, to be returned to the OTC along with any additional documents requested. Once the initial information is received and reviewed, the auditor will determine the information and records needed. You will be provided with a document detailing the additional items being requested. A date will be set to either return the documents or for the auditor to review the records in person. Information can be provided to the OTC through [OkTAP](#).

## **PAPER OR ELECTRONIC RECORDS**

Audits can be completed using either paper records or electronic records. Although electronic records are preferred as it speeds up the audit and minimizes the burden of paper copies. Electronic auditing, or eAuditing, is computer-assisted auditing that uses electronic records to complete all or part of the audit. If you use a computer to record your business activity and maintain this data electronically, you will be asked to provide the data or records in an electronic format. The auditor will then use computer software programs to analyze the data. The OTC prefers to examine electronic records downloaded from your computer system whenever possible, because it is the most accurate and efficient method of conducting an audit.

### **What records will I need to provide?**

The most common records requested are:

- Cash receipts and disbursement journals
- Depreciation and asset schedules
- Federal income tax return
- General ledgers and journals
- List of all officers, partners and members, including their Social Security Numbers (SSNs) and addresses
- Oklahoma tax returns
- Property records



- Purchase and sales journals
- Records specific to some tax types (i.e., mixed beverage, gross production, etc.)
- Sales tax exemption or resale
- Supporting documentation

### **Full record audit vs. sample audit.**

While a full record audit is stipulated by statute, the taxpayer and an auditor may agree a sample audit will be just as accurate and more efficient for both parties. A sample audit looks at a smaller portion of your records and uses the results from those records to determine if additional tax is due. If a sample audit is performed, a signed [Audit Methodology Agreement](#) must be completed, agreed to, and signed by an authorized person, such as an officer or partner of the business.

### **Other forms you may be asked to complete.**

- [Agent Authorization](#). If it is determined that additional tax is due, an officer can authorize someone else to act as their agent regarding the matter. An officer may authorize someone such as their lawyer, CPA, another officer, etc. to act on their behalf.
- [Email Authorization](#). This form will allow the auditor to correspond with you regarding the audit using email.
- **Forms related to the industry being audited.** Some industries, such as bars and clubs, require additional information specific to the industry. Various forms may be needed to obtain this information.
- **Officer/Partner List.** This form must be completed for all corporations, limited liability corps and all partnerships. It must include the names, addresses and social security numbers of every person who was an officer, member or partner during the audit period and must be signed by one of the persons listed.

## **NAVIGATING THE LIABILITY**

### **What happens after the review?**

If the auditor finds that tax is not due, you will be informed the audit is being closed. Otherwise, the auditor will notify you of the findings and legal basis for any adjustments and conduct an exit interview, if possible. The exit interview may be held in person or by phone with you, your representative or both. The auditor should include an explanation of the working papers, tax assessment, your taxpayer rights and deadlines for making payments or filing protests. During the exit interview, make sure you fully understand the reasons for any proposed changes and ask for an explanation of anything about which you are unclear.

After the audit is complete, you will receive a Notice of Proposed Assessment, which provides the official notice of any amount due. This document serves as a request for payment of any unpaid amounts, and provides instructions for filing a protest if you disagree with the proposed changes. If you do not agree with the findings, it is important you notify Audit Services of any disagreement before the expiration of the 60-day period specified on the Notice of Proposal Assessment. If you agree with the audit findings and tax is due, make the payment as instructed in the letter, within 60 days to avoid penalty. If the assessed amount of tax and interest are paid in full within the original 60-day notice of billing, the penalty will automatically be waived. If you cannot pay the liability in full, contact the OTC Account Solutions group at 405.521.2212 to discuss available payment options.

### **Your rights after audit completion.**

You have the right to an automatic waiver of penalty if you remit payment of tax and interest within 60 days of the original notice of billing letter. The following options are also available when requested in writing within 60 days of the date on the original billing letter. It is important to note that interest will continue to accrue during any of the following options.

You can:

- Request an extension of up to an additional 90 days to go over the findings and submit additional records for review;
- Request consideration for waiver of penalty and interest, which requires tax to be paid in full;
- Request a payment plan;
- Protest the review. If you decide to protest the review, a written statement of your intent to protest, including an outline of the findings in dispute, must be received **before** the final date of the extension. Protests are assigned to our Legal Division. In the event the matter cannot be resolved, it will be set for a hearing before an OTC Administrative Law Judge (ALJ). If your case goes to hearing, you have the choice of representing yourself or having someone else represent you (i.e., your accountant, CPA or attorney);
- Protest the review **after** the deadline. If you decide to protest the review but have missed the 60 day deadline, you may still send in a 221(E) Request for Abatement, within one year of the finalized review. You must be able to show, through a preponderance of evidence, that the review was incorrect in order for the protest to be accepted. A 221(E) Request for Abatement does not have the option of being heard before the OTC ALJ but may be reviewed by the OTC Legal Division; or
- Settle your tax liability. A [Packet S Application for Settlement of Tax Liability](#) may be submitted for tax due once the balance has become final, due and owing. This option

can only be used in limited circumstances. Trust fund taxes cannot be settled for less than the tax collected; examples include sales, withholding and mixed beverage tax.

### **If I owe tax, how do I pay?**

You can pay online or by mail.

To pay online:

- Go to [OKTAP](#).
- Log in to your business account and pay using the media number, located on the billing letter.
  - If you are paying within 60 days of the date of the letter, you only need to pay the combined amount of tax and interest due.

To pay by mail:

Send in a check along with the billing coupon to:

Oklahoma Tax Commission  
Oklahoma City, OK 73194

Failure to pay all tax due will cause a tax warrant to be issued against the business for any assessment remaining unpaid after 60 days. If a protest or extension have not been received within 60 days of the date of the Notice of Proposed Assessment, the audit will automatically post within 75 days, at which point the tax warrant will also be issued against the business. If the tax is owed by a trust, such as sales or withholding tax, a tax warrant will also be issued against each officer, member, partner or any individual directly responsible for the collection and remittance of tax.



# OKLAHOMA STATE RULES & STATUTES

You may find additional information regarding various issues discussed in this guide in the [Oklahoma Administrative Code Rules \(OAC\)](#) and [Oklahoma Statutes \(O.S.\)](#).

## REFERENCES

### **Audits**

Sections 710:65-6-30, 710:65-3-31, 710:65-3-33, 710:65-5-1, 710:65-5-2, and 710:65-5-4.  
Okla. Adm. Code

### **Liabilities**

Sections 710:65-3-1, 710:65-5-5, and 710:65-7-3. Okla. Adm. Code  
Sections 68(219.1) and 68(223). Okla. Stats.

### **Protests**

Sections 710:1-5-10, 710:1-5-20, and 710:1-5-71. Okla. Adm. Code  
Section 68(221). Okla. Stats.

### **Waivers**

Sections 710:1-5-11, 710:1-5-12, 710:1-5-116. Okla. Adm. Code

### **Other**

Section 710:1-3-6. Okla. Adm. Code